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SUPPORT BY THE UNITED NATIONS SYSTEM OF THE EFFORTS OF GOVERNMENTS TO PROMOTE AND CONSOLIDATE NEW OR RESTORED DEMOCRACIES

SUSTAINABLE DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION

Letter dated 14 May 1996 from the Permanent Representative of Ukraine to the United Nations addressed to the Secretary-General

I have the honour to transmit herewith an English version of the state of the nation address delivered by the President of Ukraine, Leonid Kuchma, to the newly elected Parliament of Ukraine on 12 May 1998 (see annex).

I should like to request you to have the present letter and its annex circulated as a document of the General Assembly under items 33 and 96 of the preliminary list.

(Signed) Volodymyr Yel'chenko
Ambassador Extraordinary
and Plenipotentiary
Permanent Representative of Ukraine
to the United Nations

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ANNEX

State of the nation address delivered by President Leonid Kuchma to the newly elected Parliament of Ukraine on 12 May 1998

Dear compatriots and people's deputies, in addressing the Ukrainian people and the Verkhovna Rada, as envisaged under the Ukrainian President's constitutional powers, I am guided, first and foremost, by the following motives. First, the responsibility of the current moment. We are now at a turning point which is of historic importance for Ukraine, a point which coincides in time with the turn of a new century. And we should have a clear picture of the state of affairs, tasks, possibilities and prospects for the development of the State and society.

So, how can we foresee what we should do today and what future we should build for ourselves and for our children and grandchildren? This requires, apart from other things, an honest, open and sincere talk about difficulties, losses, mistakes and setbacks.

Second, I proceed from the fact that this is the first address to the newly elected Parliament. Congratulating you on your success in winning parliamentary seats, congratulating the political parties and blocs that won the right to be represented in the Verkhovna Rada, congratulating the new Parliament on beginning its work, I hope and believe that you are all aware of your responsibility for the course which Ukraine is to follow from now on and for Ukraine's image as it is ushered into the twenty-first century.

Incidentally, I would like to point out that the fact that Ukraine exists and that it will remain a sovereign and independent State is not subject to any debate. The question is to what extent it will be a democratic, socially oriented and law-governed State and to what extent the integrity of the fundamental constitutional formula will be ensured. The question is extremely vital and we are the ones to answer it. And we must not simply answer it, but must give the nation hope and open up the way for its energy, dynamism and will to expedite the progress of social transformation. Ukraine should become a State in which the individual's potential is realized to the fullest and where the individual, for his part, can see his place in the processes of building the State.

I emphasize this also in view of the progress and results of the election campaign. The debate on the issue is not abating. There is still an abundance of various estimates, forecasts and options of further developments. I leave it up to the experts in political science to do a thorough analysis, and I state unambiguously that no scenario disastrous for Ukraine or the nation will be implemented as long as I am in the President's office.

It is necessary to realize the main lessons of the elections: the majority of the Ukrainian people do not wish the former system of social values to be restored and do not support political extremes. People are protesting against setbacks and failures in the social and economic sphere; they do not understand

and do not accept protracted and fruitless conflicts between branches of power and their bodies at various levels. They have become extremely tired of mutual accusations made within the echelons of power, of the search for the guilty and of expectations that their lives will become better. This state of affairs cannot and will not be tolerated any more. The imperative of our further work, as I see it, is to establish order first within the bodies of power and then throughout the State. I will pursue this policy line consistently and firmly.

In general, the crucial point at issue is the need to make the national idea a reality, taking into account the specific nature of the current stage in our development. It should embrace the entire spectrum of social interests and rest on the historic experience of the people, its mentality and traditions, and, at the same time, should set the main objectives and priorities of our progress and unite people, State and public institutions in order to achieve them.

The need for a powerful unifying symbol, which would encourage everybody to work constructively and creatively, is determined today by many factors. I would like to mention the main ones. First, it is a critically decisive stage that we are in at the moment. Second, there is the absence in some of our citizens of a feeling that they belong to a single nation, that they share its interests and pursue its objectives. People are divided according to a whole series of characteristics: social, economic, political and regional, and in terms of outlook. Third, there is the inadmissibly high level of politicization of economic and social issues and sometimes even open attempts to substitute ideology for the economy. This was particularly visible during the election campaign. I am in favour of responsible moves, in favour of sober-minded and unbiased conclusions as regards the economic situation, which would be made taking into account objective conditions and starting points. Realistic economic policies can be worked out and implemented only on this basis.

Moving on to this basic issue in our lives, I consider it necessary to remind you that the economic reform course approved by the Ukrainian Parliament in 1994 flowed organically from the declaration of Ukraine's State sovereignty and the law on Ukraine's economic independence. The fundamental principles of State-building set out in these laws were later secured in the constitutional accord and the Constitution. This is the economic path that I have argued for and will continue to argue for, including the incorporation of recent world achievements and entry into the international economic arena.

Another issue is that economic reforms do not stand alone. They should be an instrument for the qualitative reconstruction of the economy, profound social reforms and an improved standard of living.

The situation now is qualitatively different from that of October 1994. For the first time since 1990, we have managed to halt the fall in gross domestic product (GDP), industrial production is gradually increasing, and the volume of capital investment has started to increase, as has the volume of cargo movements and some other indicators as well. However, these are just signs that positive advances are beginning.

What has prevented us from achieving more? Apart from underestimating the difficult starting conditions, which has often been mentioned, factors concentrated mainly in the area of political conflicts have made themselves felt.

Last year the financial crisis become very acute and far-reaching. It affected the finances not only of the State, but also of enterprises and organizations, and it considerably reduced our chances of bringing about complete economic stabilization. It is not only individual enterprises and a number of sectors that are loss-making. Credit indebtedness has increased by more than 50 per cent. The State budget deficit has increased by almost 2 per cent of GDP. By 1 April of this year the volume of internal debt exceeded 13 billion hryvnyas.

I cannot lay this only at the Government's door. After all, not a single one of its proposals to reduce budget spending was approved last year. The delay in approving the budget alone caused a loss of approximately 3 billion hryvnyas in external loans. If cardinal measures are not taken urgently to balance out budget spending against the true income, the State will end up in a chronic debt crisis.

The situation is very difficult, but I do not intend to overdramatize it. It is under control. Budget funding of current payments in the social field is being carried out in full. Inflation is going down. The stability of the currency is being maintained. The Government is continuing to guarantee the payment of debt obligations. But it is necessary to understand everything, not just so that disruption of stabilization processes in production can be prevented, but also so that we can beat the budget crisis this year at least.

These were my considerations when I issued the decree introducing austerity measures to cut the budget deficit down to 2.5 per cent of GDP. In the immediate future, the Cabinet of Ministers will submit the appropriate draft law to the Verkhovna Rada. It is no less important to ensure a realistic budget next year, further tightening the budget deficit. I know that these tasks are enormously difficult. They involve unpopular decisions, adjusting expenditure and abolishing numerous welfare benefits unheard of in any other country. There is simply no other way. I would ask the newly elected Verkhovna Rada to treat this issue with understanding and responsibility.

The budget process must become a testing ground for the capacity and desire for constructive cooperation between the Government and Parliament. I do not support the proposals to solve budgetary and other economic problems through inflation. On the contrary, the way out lies in further strengthening the national currency. For this purpose, the 1999 budget should envisage a lower inflation estimate of 7 to 8 per cent, with a further fall to 5 to 6 per cent in the years to come. This is important in terms both of protecting incomes and boosting the investment process, as well as for economic activities on the whole.

At the same time, there is a need to increase the monetary value of GDP, that is, the amount of currency employed in the economy, without causing inflation. It is also necessary to ensure considerable improvement in the

structure of currency in circulation. At the moment, almost every second hryvnya bypasses bank accounts. This is an alarming and unacceptable phenomenon.

It is time to adjust monetary policy. The trend towards artificial strengthening of the hryvnya over the past two years has been inflicting tangible damage on domestic producers, above all, exporters. I believe we should soon switch to a policy of ensuring parity between the hryvnya exchange rate and the rate of inflation. Provided the financial crisis is overcome and a favourable macroeconomic environment is achieved, we can expect GDP to increase by 0.5 per cent this year, 2 to 3 per cent in 1999/2000 and 4 to 5 per cent a year in the future. Industrial output will grow at a rate of 1.5 to 2 per cent above the projected estimate.

An important prerequisite for this is in-depth structural transformation. This is prompted by both the traditional deformity of Ukrainian industry inherited from the Soviet era and the trends that have begun to emerge in recent years. The most alarming one is the decline in the proportion of finished products. Since 1990, it has dropped by almost half to 34 per cent [of GDP]. The proportion of engineering output has decreased by 50 per cent, while that of light industry has dropped to one sixth of its former share. Instead, the proportion of ferrous metallurgy, which accounts for almost 40 per cent of electricity and gas consumed by industry, has increased by 150 per cent. Our specific environment, as well as world experience, do not allow any other option but to combine structural policy with innovation. This is the road to Ukraine's economic growth and its establishment as a high-technology power.

Our society will find this goal quite feasible. It has preserved the core of its intellectual, productive and scientific potential, of which not many transitional economies can boast. Of course, this does not mean we should pay less attention to sectors with fast capital turnover, such as the light and food industries. Without abandoning these, we must focus our efforts on those that will solve the entire chain of economic problems. Among Ukraine's promising sectors are aircraft building, where it ranks among the world's seven leading countries, the rocket-and-space complex, shipbuilding and tank manufacturing. We must achieve a new standard of high technology and competitive production in heavy engineering and instrument making, the output of energy equipment, information and communications technology and non-ferrous and powder metallurgy.

Our limited investment resources unambiguously dictate that production should be high-tech and economic management systematic and targeted. The post-war experience of the Western European countries and Japan show that this is the case. The Government must decide the State's research and development priorities and draw up targeted programmes, to be approved by Parliament later.

If we truly want to go down the path of developing research and development and not lose our chance, then we must make sure we have real support from scientists and scientific schools, many of which are unique.

An urgent task, simply crying out for attention, is to bring order to the taxation system so as to stimulate production processes and structural changes.

The Government and Parliament must finally decide to substantially lessen the tax burden.

I consider the following measures to be overdue: to lower the tax burden on the labour remuneration fund to 35 per cent in the second half of this year; to gradually reduce the value-added tax (VAT) rates to 10 to 15 per cent; to fundamentally simplify VAT collection procedures; to substantially reduce tax pressure on agricultural producers; to introduce a single tax on agricultural activity in the second half of this year; to introduce tax stimulation of investment, research and development, small businesses and exports of high-tech products; to make the maximum rate of tax on individuals the same as the level of profit tax on enterprises; to make the tax threshold the same as the poverty level; and to bring order to the local tax system and mandatory payments to extrabudgetary funds.

Parliament must express its will and responsibility and review concessions that have nothing to do with stimulating production. Esteemed people's deputies, I hope you will be encouraged to do so by the following figure: concessions currently swallow up approximately one fifth of the income to budgets at all levels. They should be left only for those who really need them. And in no way, I emphasize, in no way should there be any infringement on the rights of disabled people and war veterans. But everything else should be turned into a way of encouraging production and research and development and introducing sophisticated technologies.

In a well-supplied budget, one should increase the role of excise duties by standardizing the list of goods subject to excise duty and reviewing rates of tax on spirits and tobacco products. Unless these issues are made the responsibility of the Government, we will not achieve the efficiency and flexibility needed to resolve them. We have left the Government with practically no levers to influence the economy, especially operational processes that require urgent intervention.

I also support the proposal to reduce deductions to the pension fund from 40 per cent of GDP in 1997 to 35 per cent in 1999 and 30 per cent in the year 2000, with a simultaneous increase in accountability for breaches of tax legislation.

Legislative acts containing the corresponding changes should be introduced this year so that a tax code can be approved in the first half of next year and taken into account in the budget for the year 2000. After the tax code has been approved, a five-year moratorium should be established on any changes at all to the tax system. The Government has drawn up draft laws on reducing the tax burden on the labour remuneration fund, introducing a single land tax, tax stimulation for small businesses and restructuring the debts of industrial enterprises. The problems are so overdue and urgent that the above-mentioned laws must be adopted as soon as possible, at this session.

The completion of this task, which is exceptionally important for the economy and the entire State, today depends on the Verkhovna Rada only. So much so that the easing of the tax pressure was among the key provisions in the election programmes drawn up by all political parties and blocs and by

candidates for people's deputy. This gives me every ground to say the following to the people's deputies: the key to the normalization and improvement of Ukraine's economy is in your hands. And the basis, level and effectiveness of cooperation between the Verkhovna Rada, the President and the Government will depend on how you use it. To step up the investment process, we also need a rational depreciation system aimed at stimulating production; the finance, leasing and stock market institutions; the insurance of investment risks; and a balanced deregulation of the economy, taking into account the specific features and tasks of the transitional stage.

At this angle, I consider it necessary to consolidate the banking system. Mostly self-isolated, it does not work properly in the interests of the domestic economy and it does not yet play the role of the locomotive of market reforms. I consider it one of the most important joint tasks for the Government and the National Bank to draw up and implement a comprehensive programme for the normalization of the banking system, the introduction of a reliable procedure for insuring deposits and involving personal savings of the population in the investment sphere. As regards the National Bank itself, defending, as before, the principle of its autonomy, I would like to see more responsibility on its part for monetary and credit policy, for the maintenance of balance on the monetary market and for closer cooperation with the Cabinet of Ministers.

The practice of using centralized capital investments should also be radically improved. From next year, the Cabinet of Ministers will determine the structure of state budget spending - a forecast budget designed mainly for long-term crediting of research and development projects. A Ukrainian Bank for Reconstruction and Development is being set up for that purpose. However, one should remember that this process will take 25 to 30 years if we rely on the domestic potential only. And this is a weighty argument in favour of a more active work to attract foreign investments, with all the necessary conditions being safeguarded by law. I set them out in detail in a report at the meeting of the European Bank for Reconstruction and Development.

Amnesty for shadow-economy capital of non-criminal origin, either taken abroad or available in Ukraine, should also be granted on a legal basis.

Dear compatriots and all those present here, I would like to lay special emphasis on problems in the agro-industrial complex. This sector concerns each and every one. The entire economy of the State in many ways rests on this sector, which has a very high potential that has not been used to the fullest, and which is faced with problems that have reached a critical point. It is losing the ability to survive, to say nothing about reproducing itself normally. The countryside ever more often remains beyond the sphere of commodity and money relations. Everything there is based on barter operations, which are unprofitable for the countryside itself and for the State. Incidentally, this is being ever more often done on the basis of government decisions. The gap between prices for agricultural produce and for goods it consumes has widened to reach an inadmissible level. Since 1990, the gap has increased by at least 400 per cent.

Where is the way out? The first and the most important thing to be done is to introduce a procedure for maintaining prices for the main kinds of

agricultural produce, which is a common practice in the majority of market economies. This should be accompanied by the consolidation of the anti-monopoly control over prices for material and technical resources, fuels and services provided to agricultural producers.

Second, the tax pressure should be not just eased but radically streamlined through the introduction of a single tax on agricultural activities.

Third, debts owed by agricultural enterprises to the State should be rescheduled and a special fund set up to provide them, on a competitive basis, with credit facilities and guarantees.

Fourth, the countryside should be provided with machinery through financing, leasing and the setting up of a network of inter-farm centres of machinery, technology and leasing services.

Fifth, conditions should be created in which agricultural producers could be free to choose the form of farming. This means that proper legal and economic principles should be created for the development of private farms, on the one hand, and for restructuring and improving the vitality of collective farms, on the other, in line with market conditions and changes in the use of land.

Sixth, the Land Code should be brought into line with the Constitution. A legal basis should be created, a civilized, state-regulated market of land formed and the development of land-lease relations developed. A farmers' bank should be set up.

Seventh, the infrastructure of the agricultural produce market should be developed on the basis of a special state programme. Privatization processes should be deepened and integrated structures set up for producing, processing, storing and selling agricultural produce.

Eighth, flexible customs regulation of food imports aimed at protecting and supporting domestic producers of similar products and of critical imports necessary to ensure the revival of the agro-industrial complex, the development of the social infrastructure in the countryside, measures to stimulate individual construction and assistance to the development of non-farming businesses are needed. I hope that such an approach will not cause too many objections. The corresponding draft laws are being submitted to the Supreme Council, while some issues have been decided by presidential decrees.

Among the complex tasks of reviving the economy there is one solid priority: the formation of a national market and a continuously growing solvent internal consumer demand with an increasing share in the production structure. While noting the increase in the proportion of exports in the structure of GDP, one should see that we have reached the limit. We should place all our bets on improving the product structure of exports. This requires considerable improvement in foreign trade, the expansion of existing markets and a search for new ones. One must admit that the structurally incomplete and incomprehensive nature of reforms is largely caused by the fact that Ukraine's development models were constructed without taking into account its peculiarity, the

existing and future legislative framework and the state of people's psychological preparation for radical changes in their established and habitual lifestyles.

The most acute and painful problem is the reform of ownership relations. It is my belief that it should be solved on the basis of a mixed economy through improving the efficiency of all its components. Private property, as well as domestic capital, should strengthen their positions. So far, their impact on economic recovery remains very insufficient. To support domestic capital there should be a change of priority in privatization. We need to consider the fact that domestic companies lack the required resources to take part in sell-offs of strategic facilities. That means we should let them take over long-term management of State-owned blocks of shares on negotiable terms.

National business representatives should be more widely involved in the management of the economy. So far, their involvement in this process is more of an exception than a rule. One must realize that privatization does not merely imply denationalization. Its key objective is to find an efficient owner, capable of managing business, attracting investments, ensuring competitive output, creating new jobs and making timely payments to employees and the State. Of equal concern is the need to boost small- and medium-sized business.

The corporate segment of the economy has so far been left out of view. Meanwhile, it accounts for more than half of total industrial output. The management of State assets is a very weak link. But they make up a sizable sector - including blocks of shares, about 5,500 joint-stock companies and more than one third of total industrial output. This is a serious failure on the Government's part, which I have pointed out before and with which I shall have to deal more resolutely in the future.

We will never create a fully fledged market economy until we lay its foundation, that is free competition, which in turn calls for demonopolization, the formation of a competitive environment, State regulation of natural monopolies and competition for State orders. It is necessary to strengthen anti-monopoly agencies and their actual influence on economic developments. At the moment, it is obviously insufficient.

The market cannot fulfil its potential without radical improvement in the system of cash payments. Over 40 per cent of trade turnover is based on barter transactions. I hope, esteemed deputies, for your interested involvement in the legislative removal of various obstacles to the restructuring of the national economy, particularly since one third of you represent enterprise.

Taking into account the well-known circumstances concerning Ukraine's economy and, moreover, national security, it is of paramount importance to create a reliable system of energy supplies and energy conservation. An urgent coordinated effort in this area is needed, first of all, because of the state of the coal industry, power engineering, the oil and gas complex and the energy market. We cannot avoid extraordinary measures in this respect. The development of our own energy base is the primary prerequisite for our survival.

History has meant that the State has always occupied first place, and thus the interests of individuals were sacrificed. Much has been lost this way. And we are losing out today. So the following issues are of paramount importance and are becoming a matter of urgency: economic provision for individuals, social balance and a halting of the dangerous tendency of eroding social guarantees. This way of putting the issue is not meant to be a propagandist approach or to tease people. This is now the only possible way we can develop in the future.

On the other hand, this change of focus in State policy is possible only with an adequate economic foundation. And so the simultaneous and comprehensive implementation of these two key issues should determine the essence of all our policies and practical work.

At the present moment there is no more important task than to pay the arrears in wages and pensions, whatever happens, and as soon as possible. We must finally tackle the causes of these arrears. The unrealistic budget, the constant endeavours to increase spending, the current artificial underestimation of the value of labour, the lack of necessary motivation to work and the low level of social spending were probably the main obstacles to boosting the economy.

Besides, the monetary income of more than 18 per cent of Ukrainian employees is lower than the poverty level. Over the next two years it will be necessary to carry out a profound reform of the system for remunerating labour. I consider a key element of this work to be the introduction of a new social standard that would be compulsory for all sectors of the economy - a minimum hourly wage, regulated by the State.

I am hoping that Parliament will be active in overcoming the incompleteness and imbalance of legislation in the area of labour relations and social welfare. We must accelerate the development and adoption of a civilian labour code and laws on the subsistence level and indexation of people's incomes, and improve the practice of delivering targeted social aid. One urgent task is to reform the pension system. Apart from anything else, we should create an efficient mechanism for providing a clearly defined optimum reward for years worked and eliminate the unfair and humiliating process of levelling out.

The problem of employment requires constant and increased attention. Unlike States with developed labour markets, we have concentrations of unemployment in some regions and difficulties in overcoming it because of the considerable local singularities. With regard to employment, now and in the future the work of the State authorities in areas where the problems are most acute, difficult and urgent will be assessed to a great extent on the basis of how they are resolved and how they carry out their duties to the people. People should have sufficient guarantees of employment in the course of privatization and restructuring of enterprises.

Another related tendency should be taken into account - the activation of migration processes, which affect a category of people with advanced educational qualifications and who are at the most employable age. This requires urgent actions to resolve the problems. Similarly, the inflow of migrants to Ukraine

from other States is practically uncontrolled. I see an important direction for this policy in expanding the number of owners, creating opportunities for all wishing to do so to open their own business. The constitutional rights of ownership, credit for and possession of private property, including land, should not be just empty noises, especially as 21 million of our citizens are now shareholders or owners of plots of land.

Even more evident and indisputable is the need for a wide range of measures to improve the quality of and increase the length of life and overcome the unfavourable demographic tendencies. Along with concentrating efforts, possibilities and reserves on health protection, we should radically change our views on the social environment. The normalization of the entire atmosphere in society and the stepping up of the role of the family should be made a State priority in practical terms. Making the family one of the priorities on the list of social values will to a great extent help protect the nation from degradation and from declining spirituality and morals, related social illnesses and other dangerous phenomena.

As regards the spiritual and intellectual development of the individual, I would like to emphasize the exceptional importance of education and culture. The situation in which these spheres have found themselves is becoming an open and glaring contradiction to their role, tasks and social purposes. Life itself requires that we should become a nation of learners, and, therefore, unrestrained and uncontrolled commercialization of education, which makes it inaccessible to many, should be prevented. The closing down of schools, nurseries and other establishments under various pretexts, particularly in the countryside, is our national disgrace. History and the future will not pardon us if children and youth are excluded from the educational process and if culture turns from a component of spirituality and humaneness into its antipode and surrogate and into a method of reproducing primitive people who will destroy the spiritual foundation of the nation. The spiritual sphere should by deed, not just by word, become a priority trend in the development of our society. Unfortunately, one can get the impression that representatives of both the executive and the legislature have genetically inherited the principle under which culture, education and science are financed only if there is money left in the budget after all other spheres have been funded.

Collisions over the opportunities to exercise the right to freedom of thought and religion are not an exception. The conflict within the Orthodox Church is not subsiding. Almost all Ukrainian denominations are involved in political strife. And this, apart from everything else, makes it easier for non-traditional religions and totalitarian sects to penetrate into Ukraine, and does not contribute to the people's spirituality or stability in society. Without playing down the guilt of the executive power bodies, I must state that some deputies of Parliament of the previous and current convocations are involved in this, as well as in the risky balancing in terms of the ethno-political theme, first and foremost, as regards the language issues.

An analysis of the election campaign makes me think that we still have a lot to do to enable our compatriots to exercise their political rights in real terms. It should be pointed out that the formation of the Ukrainian society's

political structure is far from being completed, and the party system, in its present form, alienates the individual in many ways.

I believe that it is absolutely important to consolidate the institutions of the democratic political system and to make sure that a civic society is established in Ukraine. This means that there should be at least three conditions: first, legal guarantees should be created for the formation of powerful nationwide parties. Because one can hardly deny that even some of the parties that have overcome the 4 per cent barrier are, as a matter of fact, regional organizations.

Second, the election law should be radically modified. Ideas and programmes rather than money should be behind those who win elections.

Third, trade unions and other mass public associations should be adapted to new realities. It is necessary to turn them in real terms into influential public institutions in society, rather than to continue, in a radical form, the traditions and functions inherited from Soviet times. In present-day conditions, we particularly need a permanently functioning and effective procedure for social partnership and constructive dialogue when settling labour disputes.

Specific tasks of Ukraine's development will be set out in a Cabinet of Ministers action plan, which is to be submitted to you for consideration and approval. Over 70 draft laws on major and economic and social issues, which have already been drawn up, back up the legal basis for their implementation.

Fifty of them should be examined and adopted urgently, most of them at this session. This would make it possible to save time, which is especially precious to us right now, when carrying out urgent measures and long-term tasks of State policy. Armed with the necessary results and forecasts, we should meet a whole series of conditions. Some of them have been mentioned in this address or proceed from it.

I consider it expedient to add the following: first, on the basis of practical experience we should clearly distinguish the necessary realistic and feasible tasks from ungrounded illusions, which bear only unfulfilled expectations. The bitter truth is better than sweet promises. The latter disorient society, disconcert people and provcke blind opposition to truly necessary and beneficial causes.

Second, in carrying out these tasks it is time to rely mainly on our own forces and possibilities and domestic growth factors. This cannot be separated from ensuring political stability and consensus in society. In surviving all nations consolidate themselves if they are capable of rallying round at a time of decisive tests and reject internal disagreements and differences for the sake of strategically important aims. In connection with this, it is difficult to overestimate the importance of such a sharp instrument of forming public opinion and influence on the nation as the mass media. Ukraine needs a free press rather than a battleaxe. This is a requirement ensuing from the constitutional principle of freedom of speech.

Third, we must reject one-sided approaches and extremes in interpreting the role and functions of the State in the transitional period. Thus, equally unacceptable are a return to the administrative command system and unlimited liberalization and complete separation of the State from society. In general, economic and social ills, the situation in which Ukraine finds itself, to a great, if not decisive, extent, are caused by a low level of State efficiency and the State's inability to implement its own decisions effectively and to ensure adherence to established rules of political behaviour, economic activity and so on; we can and must overcome these weaknesses of the State.

With regard to the economy, this means not squeezing out market-regulating mechanisms, which have now been put in place and are operating, but supporting supplementing, improving and strengthening them. Such a policy should materialize primarily through a broad spectrum of legislative acts, paving the way for market reforms and putting relations between their subjects into a lawful channel. However, the State must strive to make sure that adopted laws are implemented steadfastly by all and without exception.

We must resolutely and irreversibly do away with our old illness - legal nihilism. If we do this, then we will manage to lead the country out of the crisis without resorting to extreme unlawful means. Although I will not try to hide the fact that there are politicians who see no other way, and even provoke the President to set out along it.

The area where the State must be especially accountable and fully carry out its duties to its citizens is the campaign against crime. This task has been placed within the framework of key elements of national security and must be carried out on a complex basis and on a scale appropriate to the difficulties of the problems.

I would like to point out the following aspects, which must be addressed: undermining the economic, social and political roots of the criminal fraternity, preventing the internationalization of their actions and providing the necessary legal base and effective and exhaustive application of this legal base. This requires increased professionalism on the part of the law-enforcement agencies, more cooperation between them and a fundamental improvement in judicial practice. I am not satisfied with the evident lagging behind of our criminal legislation from the acute challenges of our time, nor with delays by Parliament in examining and adopting urgent draft laws, nor the low efficiency and insufficient provision of the work of judicial bodies, or the practical defencelessness of judges.

If we do not draw serious conclusions, people will not just disrespect the State and have no faith in it, but they will see in it an ally of the criminals. A systematized package of draft laws concerning the campaign against crime will be submitted to Parliament this week. If its adoption continues to be delayed, all of our work will be like fighting windmills.

Together let us root out such dangerous and impermissible phenomena as corruption, primarily within the State apparatus, organized crime and banditry, and pay special attention to national security in all of its components and manifestations. The decisive aspects are political, socio-demographic,

economic, informational, environmental and military. They all coexist in the closest interrelationship. And the weakening of any one of them threatens a chain reaction.

In particular, I would like to emphasize a qualitatively new side to national security. It is its constitutional aspect. As the legal backbone of the State and of society, the fundamental law requires safeguards. This is especially true now, when our life lacks stability and there are attempts at inappropriate outside influence. These safeguards must be of a purely legal nature. On the other hand, they must be enhanced by more effective constitutional provisions, primarily as regards the basic elements of the constitutional order and human rights.

I attach no less significance to the formation of an international environment which would favour Ukraine. At present, there are sufficient grounds to state that a balance and realism in our foreign policy has brought this aim within our reach. The balance and realism of our State's foreign policy has enabled it to charter a new course towards the European and international communities, while at the same time strengthening our traditional ties with Russia and other partners within the former Soviet Union and rectifying the deformation of these ties.

Nobody can now deny that Ukraine has consolidated its positions worldwide and has considerably improved its image and raised its profile internationally. However, equally obvious is the fact that we are at the very start of this road and that any accomplishments can be nullified by unintelligent, ill-advised and, moreover, provocative words or actions. I would like you to realize that we cannot and shall not have our foreign policy determined by more than one central authority.

I view the consolidation of the State as the need to consolidate its authorities, which must cease to perceive themselves solely as administrative and governmental agencies and, instead, be instrumental in the exercise of the will of most in our society. This also represents the moral dimension of legitimacy and a precondition for trust in those in power to be restored and for the alienation of people from those in power to be overcome. The activity of all authorities must therefore have transparency and openness.

There are two main reasons for the weakness of the authorities which must be dealt with. The first is that these institutions are far from stable, which, in conjunction with political and other tendencies, has resulted in a long-drawn-out period of confrontation between various authorities, primarily between the local administrations and the self-government bodies. Thus, the discussion and passage of the constitutional treaty and the Constitution, and many other more or less important legislative acts alike, were marked by acrimonious conflict because of the lack of agreement and interaction at the highest level.

I do not consider the consolidation of the authorities to be a scenario in which one branch of power is placed above all others. Rather, it is a constitutional balance between the branches of power, each of which must strictly adhere to its constitutional powers and responsibilities. In particular, we shall have to ensure that local self-government fulfils the true

meaning of that term. Some, including some in Parliament, are known to regard the representative authorities as a separate branch of power and favour the establishment of a separate structure which would extend from the Verkhovna Rada to a village one. I would like you to realize that I shall allow no disjointedness, parallelism or duplication in the organization and operation of the authorities, nor a situation in which some areas get out of control and turn into ungovernable states within a State.

The practices in use in mutual relations between the central and regional authorities must be reviewed and optimized. The Autonomous Republic of Crimea is certainly not last if not first on the list.

I am sure that you will support my view that the mechanism of Government in a State must be a single and indivisible entity. Apart from anything else, this means that there should be full, universal and unconditional compliance with State decisions and personal responsibility on the part of every official without exception. I shall enforce this line strictly and unswervingly.

The second reason why the authorities are weak lies in the personnel area. Quantitatively, the cadre potential in Ukraine is impressive, with more than 300,000 civil servants. The problem is its quality. The considerable professional and organizational experience which senior generations have accumulated has not been duly backed by new approaches so necessary at present. On the contrary, officials with a more or less free-market mindset quite often suffer from a poor command of managerial functions. Hence the difficulties in the selection and assignment of the core personnel and its considerable turnover at all levels.

Combined with the signals that have been sent by various circles, including the Parliament, this exacerbates the mood of uncertainty and temporariness, with all the resultant consequences. The time demands a harsh personnel policy, which shall be pursued throughout, with no exception. Those who are unable to perform their duties, who are not pulling their weight, as it were, must leave.

My main criterion for the assessment of officials now is primarily their ability competently to tackle economic and social problems and the level of their control over the organizations and areas for which they are responsible. For the leadership of law-enforcement agencies, it is their ability to ensure the public safety. Officials shall be held personally accountable.

Like you, I cannot but be dissatisfied with the performance of the Government and the executive as a whole and see drawbacks in its structure and organization of work. Accordingly, I would like to step up the administrative reform and the adoption of a law on the Cabinet of Ministers. Whether we like or dislike the Government must not be determined by the logic of fighting for access to the resources of the State, while revolutionary attacks on the Government, which have no relevance to the situation in reality, cause an even greater degree of instability and worsen the feeling of temporariness mentioned above. Let us remember that.

Esteemed fellow countrymen and people's deputies, you have seen from my address that I am willing to seek mutual understanding and cooperation with the

Verkhovna Rada. You must agree, however, that this must be a mutual and reciprocal process. I would also like to recommend that the Parliament analyse the practice of relations with the President and Government, particularly after the Constitution was passed, not to once again lodge any complaints but to draw serious and responsible conclusions on how to ensure constructive joint action and agreement and coordination in our efforts. I maintain that each of us should do his own job and do it honestly and thoroughly, as dictated by the situation and national interests. As President and guarantor of the Constitution, let me state that this is how it will be. I shall allow no confrontation, administrative tug-of-war, substitution for legislative work or attempts to impose an ideology. I would like to see in all of you like-minded comrades-in-arms in the great common cause of building a new Ukraine.